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FAR EAST-AMERICA COUNCIL
OF
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ADDRESS GIVEN BY THE HONORABLE MIGUEL A. CUADERNO, Sr.

GOVERNOR, CENTRAL BANK OF THE PHILIPPINES

AT THE PHILIPPINE SESSION OF THE FAR EAST CONFERENCE

OF THE FAR EAST-AMERICA COUNCIL OF COMMERCE & INDUSTRY, INC.

ON THURSDAY MORNING, OCTOBER 8TH 1953

IN THE WALDORF-ASTORIA HOTEL

NEW YORK CITY

"UNITED STATES-PHILIPPINE ECONOMIC RELATIONS"

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I am happy to participate again in your Annual Conference. The selection of the theme for this Conference, "Foundations for Understanding and Economic Cooperation between the United States and the Far East," is indeed a happy one. It is both timely and appropriate because the economic problems of countries in the Far East constitute the most pressing issue today.

Basis for Economic Cooperation -

Economic cooperation between the United States and the Far East could be achieved only if the American people would try to understand the political and economic problems of the Far Eastern countries and if determined steps to correct them were taken.

It took centuries for some countries in the Far East to become politically free; a few of them have yet to gain their liberty. Those which have won political freedom are rich in natural resources but their low level of production, especially of consumer goods, has kept their people in a constant state of hunger and poverty. Because of the ravages of the last World War and the rapid increase in population their peoples have a living standard even below prewar.

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Freed from the dictates of their foreign rulers, these countries are no longer satisfied with their prewar pattern of economy, which is characterized by a heavy dependence upon ability to sell a few items of raw materials, the prices of which are dictated by foreign political and economic developments, while they have to import commodities essential to the physiological needs of their peoples. These countries now feel that if their newly-won political freedom is to be preserved, they must achieve a greater degree of economic freedom. They feel deeply the fact that, while for centuries they have kept the factories of the industrial countries supplied with raw materials, their own peoples have remained in a state of dire poverty.

Such one-sidedness in economic relations should no longer be tolerated. The universal hunger for higher levels of living, and the demand for adequate recognition of national dignity, especially by newly-formed states, make such conditions an intolerable anachronism at present.

Most of the countries which have had to put up with such economic distortions in the past are now undertaking the arduous task of raising the levels of productivity and real income within their national boundaries, so that the benefits of modern technology might be put at the disposal of more millions of people than at present enjoy them.

When we speak of "Foundations for Understanding and Economic Cooperation between the United States and the Far East," therefore, this is the first point that has to be borne in mind, for most of the countries in that area have undergone similar experiences in the past and are now engaged in analogous efforts to diversify and develop their national economies.

A second point that must be mentioned in connection with this first one, however, is that such economic development is not possible unless equitable economic relations exist between such countries and the more technologically progressive countries of the world; this applies with particular emphasis to the United States, whose wealth, power and productivity put it in the first rank of the great nations of today. The under-developed countries of the world, especially the former colonies in Asia, due to the distortions introduced into their economies by long years of foreign domination, must import a large proportion of the consumption needs of their teeming populations. Worse still, they must import practically all of the capital goods - tools, equipment, machinery - and a considerable amount of the raw materials - chemicals, plastics, etc. - needed to industrialize and lift themselves out of the economic morass in which they find themselves at present.

These import requirements must be financed by what these countries can produce and sell abroad; in a word, by their exports.

What, however, do they find when they look around? First, they cannot trade with Red-dominated countries, lest by so doing they crack the unity of the free world. Secondly, when they turn to the United States, they find that their products have to hurdle a formidable array of barriers - tariffs, quotas, restrictions, complicated procedures - which effectively

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exclude most of them from the American market. Thirdly, when they look elsewhere in the world, they find that it has become extremely difficult to engage in the triangular trade of bygone days because of the inconvertibility of some currencies. They may find that they can sell their goods in one country but must import their requirements from another country which, however, cannot accept the currency of the first in payment. This puts the underdeveloped countries right back where they started.

How are they going to solve these multifarious and complicated problems? I am not here to give a definite and universal answer. I call them to your attention, however, in the light of the theme of this Conference, in order that you might be encouraged to devote some more thought to them.

They are, in my view, some of the fundamental issues which have to be met if a real foundation for understanding and economic cooperation between the United States and the Far East is to be had.

United States-Philippine Economic Relations

How the United States can take the lead in the solution of some of these issues forms the main topic of my talk today. I refer to the case of my country, the Philippines, with whose problems I am naturally more conversant than with any others.

With the grant of political independence, and considering the close relationship which for over half a century has existed between our two countries, it is highly to be desired that a strong foundation for understanding and economic cooperation should at all times exist between them. It is in this spirit that I shall try to discuss before you the subject of United States-Philippine economic relations.

In 1946, because of the impending grant of independence to my country, the Congress of the United States approved a law providing for an economic arrangement between the United States and the Philippines. It was perhaps believed at the time that the economic arrangement provided by this law would enable the Philippines in time to establish an economy which would be consistent with its status as an independent country. Since then, however, it has become apparent not only that the objective sought in that law is difficult to achieve, but also that the economic position of the Philippines would be severely strained by the operation of its provisions in the not distant future.

Therefore, in May of this year my Government started negotiations with your Government for a reexamination of the economic relations between our two countries. We have taken this step because of our deep concern about the economic stability of our country, and because we sincerely feel that it is in your interest as well as ours that the Philippines achieve an economic pattern which is not too dependent upon the continued assistance of your generous country. Since the final decision on our proposals would require action by your Congress, it is important that all elements in this country should be informed on the nature of and grounds for our proposals for revision

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of our economic relations. I hope, therefore, that you will pardon me if I take a little of your time to explain here the circumstances which impelled us to take such a step.

That there is need for a reexamination of our economic relations with the United States is indicated in the following statement in the report of the economic mission sent by former President Truman to my country in 1950, headed by Mr. Daniel W. Bell:

"The Philippine Government will find it necessary to direct its commercial policy to meet the needs for development and to strengthen trade relations with other countries. The present Trade Agreement sets the terms that will govern the trade relations between the United States and the Philippine Republic for the next twenty-four years. The Act under which the Agreement was made was passed more than four years ago. Conditions have changed very radically since then, new problems have emerged and new policies have become necessary to deal with them."

This Mission recommended in its report that a "study be made of the need for modifications of the present trade agreement to take account of new conditions and to provide for trade relations in conformity with international agreements on trade and exchange policy to which both countries have subscribed."

Under the terms of the present Executive Agreement between the United States and Philippine Government, which are in strict accordance with the provisions of the Philippine Trade Act approved by the Congress of the United States in 1946 (known as the Bell Trade Act), certain Philippine products, such as raw sugar, coconut oil, cordage, pearl buttons, etc., enter the United States market free of duty but in limited quantities (under quotas). These rank among the principal exports of the country. U. S. goods enter the Philippines free of duty but not subject to quotas.

While this trade arrangement between our two countries has encouraged the growth of industries receiving preferential treatment in the U. S. market, it has rendered it very difficult for my country to establish industries for the production of consumer goods, thus compelling the country to remain a heavy importer of such goods. From 1946 to 1948, inclusive, total imports amounted to ₱2,784,600,000, as against total exports of ₱1,293,000,000, or a total trade deficit of ₱1,491,600,000. Of course, that was a period in which wartime shortages and the requirements of rehabilitation and reconstruction had to be met. But in 1949, when the import requirements of the country could be considered as most nearly normal, total imports still exceeded total exports by ₱665,300,000, while the total deficit in the balance of trade for the years 1950 to 1952, inclusive, was ₱291,200,000, notwithstanding import and exchange controls and the high receipts from exports due to the war in Korea. In 1952 alone, the balance of trade was against the Philippines by ₱137,500,000, which did not include freight and other shipping charges amounting to a net of around ₱104,000,000. Had it not been for U. S.

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Government expenditures in the Philippines during that year of \$149,200,000 for veterans pensions, MSA aid, and U. S. military and civil establishments, the international reserves of the country would have been seriously depleted. The heavy deficits in the balance of trade prior to 1952 and had been met with the heavy inflow of windfall dollars largely in the form of G. I. spending and war damage payments. The persistence of deficits in our balance of trade shows among other things that much of our export income is dissipated in the purchase of consumer imports, instead of being channeled into investment as required by the circumstances of our time.

If the Philippines is to be economically viable, it has to develop an economy which is not too dependent upon the country's ability to sell in foreign markets nor upon uncertain dollar windfalls from your country to provide itself with most of the commodities which it needs. Such a type of economy is too vulnerable to foreign economic and political vicissitudes.

Aside from the unstabilizing feature of the economy which is the product of the present trade relations between our two countries, it has serious social implications which we cannot afford to ignore. The low income of the Philippine agrarian population which is being aggravated by the annual increase in population in the agricultural sector poses a problem which calls for immediate solution. The influence of demand and price on the primary export crops of the Philippines renders income from this source very unstable. This is all the more painful because the prices of agricultural commodities are inherently more unstable than those of industrial goods. At a time when the prices of export products are declining faster than the prices of imported goods, the income of the agricultural sector is greatly reduced. The surplus population in the agricultural sector has to be employed elsewhere, or the country will be faced with the problem of too many people living on land that cannot provide them with an adequate standard of living. This is one of the most difficult problems of a country whose economy is largely agricultural. Industrial development is the only solution to this problem, but in my country the attainment of this objective is made difficult by the competing duty-free goods from your country.

Aside from the stultifying effects of the present trade arrangement on the development in our country of a more balanced economy; aside from the difficulties which the said arrangement creates in the maintenance of a stable economy, my country is yet to face problems more serious in their implications to its economic and political stability. Beginning July 4, 1954, under the provisions of the U. S. - Philippine Executive Agreement, sugar, cordage and other Philippine articles entering the United States will be subject to duty, starting from 5% of the U. S. duty and increasing by 5% every year, while the duty-free quotas on cigars, scrap and filler tobacco, coconut oil and pearl buttons will be reduced annually by 5% of the original absolute and duty-free quota. On the other hand, a gradually increasing duty of 5% a year of the Philippine duty will also be imposed on goods coming from the United States beginning July 4, 1954, but said imports will continue as at present, without any

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quantitative limitations. Because of the gradually increasing duties and because of the increase in production cost following the imposition of duty on the supplies and materials which are imported from the United States, the Philippines will soon be unable to sell its products profitably in the United States market. Since the Philippines will continue to be in need of heavily importing essential goods for the people's well-being, we cannot see how we could pay for such imports if our country's ability to sell its products in your country is curtailed. It should not be difficult to visualize the serious economic and social implications of such a situation.

Before turning to what we propose to do about this, let us examine a few more features of the present Executive Agreement.

Freedom to Administer Currency

Experience in the past few years indicates the imperative necessity of eliminating the provisions of the Executive Agreement which limit the power of the Philippine Government to control and administer the Philippine currency. The requirement that the Philippine Government should get the consent of the President of the United States before it can change the par value of the peso or restrict transactions in foreign exchange could be productive of serious consequences to the international position of the Philippine currency. On questions of exchange and monetary matters, prompt and decisive action may be necessary; any delay arising from consultation, considering that there is already a similar commitment with the International Monetary Fund, may have serious consequences for the stability of our currency.

The following comments in the report of the United States Economic Survey Mission (Bell Mission) of 1950 on this point are self-explanatory:

"One provision of the present Trade Agreement requires that no change in the par value of the peso shall be made by the Philippine Government without the approval of the President of the United States. Such a provision is not necessary to safeguard the interests of the United States. As a member of the International Monetary Fund, the Philippine Government cannot change the par value of the peso until it has consulted with the Fund, and for any change in excess of 10 per cent of the present par value, unless it has the concurrence of the Fund. This provision for considering any proposal for a change in the par value of the peso by an international organization provides adequate protection for the interests of the United States in the stability of the Philippine currency.

"In practice, the present provision does not offer assurance against the imposition of an undesirable exchange policy. The need for exchange control or for a

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change in the par value of the peso may result from domestic policies. The President of the United States has no responsibility for the fiscal, credit and investment policies that may necessitate such action. For this reason, he ought not to be burdened with the responsibility of giving formal approval for exchange controls or changes in exchange rates if they should be needed. By the time such approval is requested, the situation has become critical, and it could not be withheld without doing irreparable damage to the country."

Other Provisions of the Executive Agreement

There are also other provisions in the Executive Agreement which should be reexamined because of the inequality of the privileges provided by them to citizens of both countries in the field of public utilities, ownership of land, and exploitation of natural resources. It would promote better understanding between our two peoples if such inequalities were removed.

Concrete Proposals

Stated concretely, the Philippine proposals for revision of this Executive Agreement are as follows:

1. That the present trade provisions of the Executive Agreement be replaced by others providing for a limited and reciprocal free trade between the Philippines and the United States whereby full duties will be imposed on all imports, both ways, except for those commodities that, by agreement of the two governments, are to be included in the duty-free lists and up to such volume and/or amount as may be agreed upon.
2. That the provision of the present Executive Agreement requiring the Philippine Government to obtain the consent of the President of the United States before it can change the par value of the peso or restrict transaction in foreign exchange be eliminated, and that the right of the Republic of the Philippines to control and administer its currency, subject only to its commitment to the International Monetary Fund, be recognized.
3. That the provision in the present Executive Agreement governing immigration, and the rights and privileges extended to citizens in the field of public utilities, land ownership, and exploitation of natural resources be made reciprocal as between citizens of both countries.

In submitting these proposals, it is the view of my Government that we should aim to secure a trade agreement that would be sufficiently stable in its main features to permit long-range planning and at the same

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time sufficiently flexible to meet changing conditions and the demands of a rapidly growing economy.

A schedule has been submitted to your Government of the commodities which the Philippine Government proposes for duty-free entry into the United States as well as of those from the United States to which my Government would accord duty-free entry into the Philippines. These lists were submitted with the understanding that they are tentative in character, representing what my Government considers a basis or a starting point for negotiation between the two countries; also, that my Government would welcome, in the course of negotiations, any proposal from your Government for a revision of such schedules if it would provide mutual benefits for both countries.

The Need for Immediate Action

In view of the proximity of the date when the progressive imposition of tariff duties and declining quotas on our principal exports will take effect, my Government is anxious to have our proposals considered at an early date. An inter-department committee of your Government has been appointed for the purpose of examining the proposals for revision submitted by my Government and other aspects of the economic relations between our two countries. We have been informed, however, that the activities and recommendations of this committee will be closely correlated with the activities and recommendations of the 17-man Commission established under a recent Act of your Congress which extended the Reciprocal Trade Agreement Act for one year, and whose terms of reference as outlined by the President are as follows:

"This Commission naturally should work within the framework of our foreign policy and our global defense plans x x x the commission should study all existing legislation and the regulations and administrative procedures stemming from it which bear directly on our foreign economic relations. This review should seek to determine how these laws can be modified or improved so as to achieve the highest possible levels of international trade without subjecting parts of the economy to sudden or serious strains."

Considering the vast amount of work which this Commission is called upon to undertake and the fact that the Commission is given time only until March of next year to submit its report and recommendations, my Government fears that if the consideration and final action by your Government are made to depend upon such report and recommendations there would not be enough time for your Congress to act on our proposals before July 4, 1954.

As I have already stated, when the additional restrictions on Philippine exports to the United States as provided in the present Executive Agreement take effect next year, to be exact less than nine (9) months from now, the Philippines will face problems fraught with serious

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implications to its economic and political stability.

Trade Reciprocity

Our proposals seeking a more reciprocal trade relation with your country are in line with the reciprocal trade program which your Government adopted with respect to several other countries. It is a program which was advocated many years ago by your late President William McKinley when in his last speech before his death he said that -

"A system which provides a mutual exchange of commodities is manifestly essential to the continued and healthful growth of our export trade. We must not repose in fancied security that we can forever sell everything and buy nothing."

Of course, the reciprocal trade program of your Government is now being examined by the Commission established by a recent Act of your Congress extending the Trade Agreements Act for one year only.

While I do not presume to say that a more liberal view on your part with respect to your country's foreign trade policy is in the interest of your economy, I am persuaded to believe that the maintenance of full employment and of the present standard of living in your country requires a steady demand for your products abroad. A recent report from your Agriculture Department, according to the issue of the Christian Science Monitor of September 21, 1953, indicates that U. S. exports of farm products during the year ended July first were about 30% less than those of the preceding year and 20% below the average of the past five years. This sharp decline in the value of your agricultural exports, according to this report, "has been a major factor in reducing the status of American agriculture during the past twelve months." In the opinion of Secretary Benson your "declining export situation points up sharply" your "need of more effective farm programs and for foreign trade policies that will not only assure the U. S. farmer good markets at home, but which also widen his markets abroad." A continuous demand for the products of your industrial plants in foreign countries is also necessary, I believe, if the high level of employment here is to be maintained.

Such a continuous demand, however, is hard to envision unless the other countries of the world have the capacity to pay, and they can get this in only two ways: by selling more to you, or by continuing to receive hand-outs. Surely the latter alternative is inconsistent with the dignity of free nations and with what seems to be a growing sentiment here at this time. This leaves only the former alternative; and I wish to point out here that such an alternative is of interest not only to the underdeveloped countries but also to the American economy. Any assistance given these countries - whether by more equitable trade relations or some other means - to bolster their economies and raise them to higher production and income levels will have as a natural by-product an increase in the demand for American goods.

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Considerable sectors of the American economy have an interest in the maintenance and expansion of overseas demand for their putput. In 1952, for instance, the United States exported 48% of its wheat crop, 37% of its cotton, 23% of its tobacco, 23% of its tractor output and 11% of its machine tool production, to name but a few instances.

Now, as income and consumption rise in those countries due to the development of their economies, their demand for goods, among them American goods, will rise and a greater volume of trade than ever will be the result. Obviously, such an eventuality will be of reciprocal benefit to all parties concerned.

May I be permitted to say, therefore, that the reciprocal trade arrangement proposed by the Philippine Government will be mutually beneficial to both our countries. And may I further say in closing that a fair consideration of the Philippine position in this respect will go a long way toward the attainment of a better understanding and closer co-operation between the United States and the other countries of the Far East.